

Message Text

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ACTION NEA-09

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASH DC 8453

INFO AMEMBASSY KABUL

AMCONGEN KARACHI

AMCONGEN LAHORE

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E.O. 11652: N/A

TAGS: ECON, PK

SUBJECT: PAKISTAN: ECONOMIC ASSESSMENT 1974 AND 1975

(PART II)

REFERENCE: ISLAMABAD 0512

1. SUMMARY. THIS DISCUSSES IMPLICATIONS FOR THE US OF THE ECONOMIC SITUATION IN PAKISTAN. IT CONCLUDES OUR ECONOMIC ASSESSMENT. END SUMMARY.

2. THE STATE OF PAKISTAN'S ECONOMIC HEALTH AND POLICIES HAVE IMPLICATIONS FOR THE US IN FOUR AREAS: US AID; US TRADE; PAKISTAN'S CREDIT WORTHINESS FOR EXPORT CREDITS; AND US PRIVATE INVESTMENT.

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3. BECAUSE OF THE MASSIVE AID NOW BEING OFFERED PAKISTAN

BY THE OIL-RICH MIDDLE EASTERN COUNTRIES, SOME MIGHT WONDER WHETHER THE NEED FOR AID FROM THE US AND OTHER SOURCES HAS DIMINISHED. WE DO NOT BELIEVE SO. OIL-RICH COUNTRY AID HAS BEEN LIMITED TO CASH AND CAPITAL PROJECT LOANS AND GRANTS. ALTHOUGH IMPRESSIVE IN MAGNITUDE, MUCH OF THIS AID WILL ONLY BE DISBURSED OVER FIVE OR MORE YEARS TIME AND WILL NOT BE SUFFICIENT TO MEET PAKISTAN'S TOTAL AID NEEDS OR EVEN HER IMMEDIATE BALANCE OF PAYMENTS PROBLEMS. FURTHERMORE, THIS AID HAS NOT GENERALLY FOCUSED ON AREAS WHERE THE US IS NOW CONCENTRATING ITS EFFORTS, NOTABLY IN FOOD AID; IN HEALTH, INCLUDING FAMILY PLANNING; AND IN AGRICULTURE. THE OIL-RICH COUNTRIES ARE NOT PROVIDING PAKISTAN WITH TECHNICAL ASSISTANCE, NOR ARE THEY PREPARED TO PROVIDE THE HELP ON PROJECT PREPARATION AND EVALUATION THAT PAKISTAN CONTINUES TO NEED. WE BELIEVE THEREFORE THAT THERE IS A USEFUL ROLE THAT USAID CAN AND SHOULD CONTINUE TO PLAY HERE.

4. GIVEN THE LIKELIHOOD OF ANOTHER DISAPPOINTING WHEAT CROP THIS SPRING AND INSUFFICIENT DOMESTIC VEGETABLE OIL PRODUCTION, WE EXPECT THAT PRESSURES ON THE US FOR PL-480 AID WILL CONTINUE TO BE STRONG IN 1975. WHILE SOME MIGHT WONDER SINCE PAKISTAN IS EXPORTING RICE WHETHER IT DESERVES TO RECEIVE CONCESSIONARY FOOD AID, IT SHOULD BE KEPT IN MIND THAT PAKISTAN IS PRIMARILY A NATION OF WHEAT--NOT RICE--EATERS. ANY SERIOUS SHORTFALL IN WHEAT SUPPLY THREATENS POLITICAL STABILITY. FURTHERMORE, WERE THE RICE NOW BEING EXPORTED (ABOUT \$330 MILLION WORTH) BE DIVERTED FOR DOMESTIC CONSUMPTION AS A SUBSTITUTE FOR WHEAT, IT WOULD HAVE AN ADVERSE EFFECT ON THE COUNTRY'S ALREADY STRAINED BALANCE OF PAYMENTS.

5. ON THE TRADE SIDE, THE PROSPECTS ARE GOOD THAT IN 1975 THE US WILL BE ABLE TO RETAIN ITS 25 PERCENT SHARE OF PAKISTAN'S IMPORT MARKET AND NUMBER ONE POSITION AS A SUPPLIER OF PAKISTAN'S IMPORTS. PAKISTAN LOOKS TO THE US FOR MOST OF ITS WHEAT AND VEGETABLE OIL IMPORTS AND MUCH OF ITS MACHINERY. THE US HAS NOT BEEN A LEADING MARKET FOR PAKISTAN'S EXPORTS (THE US HAS ONLY A FIVE PERCENT SHARE), AND WE DO NOT EXPECT MUCH CHANGE IN THE MODEST US RANKING HERE.

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6. ALTHOUGH WE NOTED EARLIER THAT PAKISTAN'S BALANCE OF PAYMENTS OUTLOOK FOR NEXT YEAR IS POOR, IT SHOULD NOT BE INFERRED FROM THIS THAT PAKISTAN IS THEREBY A POOR EXPORT CREDIT RISK. WE SEE NEXT YEAR'S BALANCE OF PAYMENTS SITUATION AS ESSENTIALLY A TEMPORARY PHENOMENON RELATED TO THE WHEAT SITUATION AND PAST PETROLEUM PRICE RISES. WE BELIEVE PAKISTAN'S LONG-RANGE BALANCE OF PAYMENTS PROSPECTS TO BE REASONABLY GOOD. THE COUNTRY CAN BECOME SELF-

SUFFICIENT IN FOOD. PAKISTAN'S DEBT REPAYMENT RATIO NOW STANDS AT A LOW 13 PERCENT. ALTHOUGH IT WILL CERTAINLY RISE OVER THE NEXT FEW YEARS, WE DO NOT ANTICIPATE IT CROSSING THE 20 PERCENT LEVEL IN THE FORESEEABLE FUTURE. WE SEE HOPE IN THE FACT THAT PAKISTAN'S EXPORT EARNINGS HAVE BEEN CLIMBING FASTER THAN THE IMF-RECOMMENDED MINIMUM LEVEL OF 14 PERCENT PER ANNUM.

7. ON THE INVESTMENT SIDE, WE BELIEVE SOME PROFITABLE OPPORTUNITIES EXIST FOR AMERICAN FIRMS HERE. WHILE THE PAST NATIONALIZATION ACTIONS OF THE BHUTTO GOVERNMENT HAVE DISCOURAGED PRIVATE INVESTMENT IN LARGE SCALE ENTERPRISES, THERE ARE HOPEFUL SIGNS OF A RETURN OF BUSINESS CONFIDENCE AND INVESTMENT. WE BELIEVE THE BHUTTO GOVERNMENT IS SINCERE IN WANTING FOREIGN INVESTMENT, AND THE RECENTLY ABORTED NEGOTIATIONS ON THE FAUJI-US STEEL FERTILIZER PLANT INVESTMENT SHOWS THE GOP IS WILLING TO GO FAR TO GUARANTEE A FAVORABLE PROFIT RATE. REGARDING EXISTING AMERICAN INVESTMENT, THE PROFIT PICTURE HERE HAS BEEN MIXED WITH SOME SECTORS DOING VERY WELL. GENERAL TYRE, RHAFAN MAIZE AND PHILLIP MORRIS, THREE OF THE LARGER US INVESTORS, PLAN TO EXPAND THEIR FACTORIES, FOUR US OIL FIRMS ARE EXPLORING FOR OIL AND GAS, AND SEVERAL US HOTEL CHAINS ARE COMING IN.

8. IN CONCLUSION, WE HAVE AN ECONOMIC STAKE IN PAKISTAN. AS A GOVERNMENT, WE HAVE INVESTED OVER \$4 BILLION IN ECONOMIC AID HERE OVER THE YEARS, AND THANKS IN PART TO THAT AID, PAKISTAN IS STRONGER ECONOMICALLY AND ITS PEOPLE SLIGHTLY BETTER OFF THAN AT INDEPENDENCE. WE ALSO HAVE A VERY SIZEABLE SHARE OF PAKISTAN'S \$2 BILLION IMPORT MARKET. HOPEFULLY, WE CAN CONTINUE OUR PRESENCE HERE TO THE BENEFIT OF BOTH THE US AND PAKISTAN.
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